

Boosting College Scholarships by \$1,000

H.R. 1425, THE STUDENT AID REWARD (STAR) ACT

The bipartisan Student Aid Reward (STAR) Act - H.R.1425 was introduced by Congressmen Tom Petri (R-WI) and George Miller (D-CA) on March 17, 2005 and currently has 43 co-sponsors in the House of Representatives. A companion bill, S.754, is sponsored by Senators Edward M. Kennedy (D-MA) and Gordon H. Smith (R-OR) with 3 co-sponsors in the Senate. This legislation provides **over \$10 billion in additional college scholarships to undergraduate and graduate students at no additional cost to taxpayers.**

The plan is simple: the STAR Act encourages colleges to utilize the less expensive of the federal government's student loan programs.

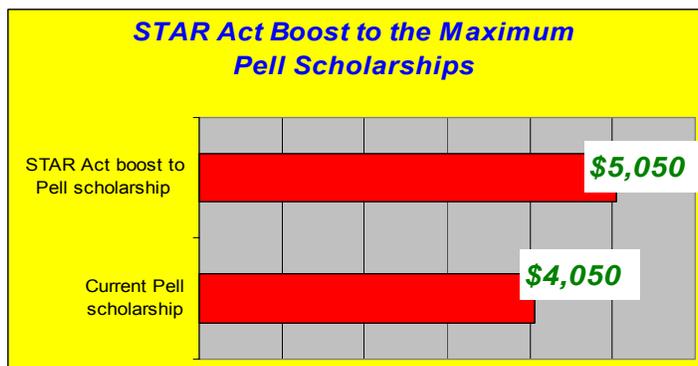
*The Congressional Budget Office reports that **the STAR Act would generate more than \$10.5 billion in additional college scholarship aid – at no additional cost to taxpayers.***

Currently, there are two main student loan programs that provide essentially the same loans and interest rates to students, but one costs billions more annually than the other. In the first program, loans are issued from U.S. Treasury funds, and private companies are contracted to service and collect student loan payments.

In the second program, the federal government underwrites and subsidizes loans issued by private lenders and banks. These loans bear virtually no risk for private banks, yet have an assured rate of return and are guaranteed against default by the government. The first program is much less expensive, because it secures loan capital at a lower rate, eliminates the middleman (lenders), and cuts out billions in unnecessary subsidies to banks.

According to President Bush's 2007 education budget, student loans made through the more expensive program cost over \$6 more for every \$100 lent than the same loans made with U.S. Treasury funds.¹

The STAR Act calls upon the Secretary of Education to determine which program is more efficient. Schools would then be rewarded with additional scholarship funds for utilizing the more efficient of the two student loan programs. The competition will encourage the federal loan programs to improve the efficiency of their operations. Schools, students, and taxpayers would all be the beneficiaries.



Estimates show that STAR scholarship rewards would equal approximately 5.5 percent of the total loans made by participating colleges. For many colleges, this would be enough to increase each student's federal Pell Scholarship by \$1,000, making college more affordable for millions at no additional taxpayer cost.

For additional information on the STAR Act, please contact Tom Culligan with

Congressman Petri 202-225-2476 or Ellyne Bannon with Congressman Miller 202-226-2068.

¹ Estimates from the President's 2007 budget include administrative costs for both loan programs.